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SUBJECT: HIGH INFLATION AND SLUGGISH WAGE GROWTH DETERIORATE STANDARD  
OF LIVING

REF: 09 CAIRO 2007

[1](#)1. (U) Key Points

--Headline inflation has been high for the past two years and food prices have risen consistently faster than prices of other goods.

--Wage growth is sluggish because of the high level of unemployment and the low level of skills and productivity in the workforce.

--Unemployment is worst among young people with a high school education or above and women.

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Inflation High  
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[1](#)2. (U) Headline inflation has been high since the beginning of 2008 and, while it declined slightly in 2009, it stood at 13.3% y-o-y as of December. Food prices have been consistently higher than those of other goods; prices of food and beverages increased 22.3% y-o-y in December. Monopolistic practices, infrastructure problems and distribution bottlenecks contribute to high food prices (reftel).

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Wage Growth Slow  
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[1](#)3. (SBU) In December, econoff met with Ragui Assaad, a professor of planning and public affairs at the University of Minnesota who is currently a research fellow at the Economic Research Forum, a regional economic think tank, to discuss unemployment and wages. Assaad said that wages for government employees have increased faster than inflation from 1998 through 2006, but that the rapid growth in inflation since then has probably made real wages fall, despite the GOE's increase in public sector wages in 2008 in response to a spike in commodity prices. Assaad attributed the wage increases to a legal requirement that public sector wages increase

7% every year. (NOTE: The government sector employs 5.3 million Egyptians, about 24% of the workforce and the public enterprise sector employs another 1 million.)

14. (U) According to both Assaad and GOE statistics, average wages in the private sector are lower and grow slower than those in the public sector. An economic study by the Egyptian Center for Economic Studies, a well-respected Egyptian economic think tank, found that wages in the private sector have been growing slower than inflation starting in 2003. The private sector employs 16 million Egyptians, about 70% of workforce. (COMMENT: This is an average of private sector wages, and does not reflect the trend for high-skilled jobs which are higher than public sector wages and almost certainly are rising faster than inflation and civil service wages END COMMENT.)

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#### High Unemployment and Low Skills Restrain Wage Growth

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15. (SBU) Employers in the private sector do not have to increase employee wages because of the oversupply of labor, according to

Assaad. Official unemployment was 9.4% as of the first quarter of FY2010, but that statistic does not capture the informal sector of the economy. In addition, the GOE counts 1 hour of work a week as employed. Ghada Garada, project manager of a training and vocational observatory at the Information Decision Support Center, a government think tank that reports to the Prime Minister's office, estimates that based on household surveys unemployment is actually between 18% and 23%. Garada said that employers are also not willing to increase wages because of employees' low productivity.

16. (SBU) Assaad attributes poor productivity and skills to the poor education system, and told us that many graduates cannot even use computers properly. Assaad is pessimistic that education can be overhauled without improving the bureaucracy in the education system which he thinks would require widespread civil service reform.

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#### Unemployment Worst among the Young, Educated and Women

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17. (U) Assaad told us that unemployment is structural; it reflects the difficulty people with high school, trade school, and public university diplomas have getting formal jobs. He estimated that 83% of unemployed people are under the age of 30 and have never worked before. He explained that people who finish high school and college have high expectations for jobs and salaries and many want government jobs that are more secure and, on average, offer wages that are higher and faster rising. Assaad said that unemployment is lower among uneducated people and poor people because they have lower expectations and take whatever job they can find. Speaking at a conference on labor in Egypt, Cairo University Vice President and Economist Heba Nassar, estimated that 73% of the unemployed were between the ages of 17 and 30. (NOTE: Egyptians who received advanced education from private or foreign institutions continue to find greater opportunities and higher wages in the private sector in Egypt and abroad.)

18. (U) Assaad said that unemployment is about four times higher for women than it is for men. Women prefer working in the public sector and have been especially hurt by the government hiring freeze. The economic crisis has disproportionately hurt women; unemployment for women has jumped from 18.8% in the fourth quarter of FY2008 to 23.2% in the fourth quarter of FY2009. In the same period, unemployment for men fell from 5.4% to 5.2%. Nassar attributed the disproportionate rise in female unemployment to the global financial crisis hitting the spinning and weaving sector which is a large employer of women and overall discrimination. The percentage of women in the workforce declined slightly from FY2007 to 22.4% in FY2008.

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Comment

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19. (SBU) Stagnant wage growth and high and rising food prices are eroding standard of living of most Egyptians. The average Egyptian household spends around 40% of its income on food and beverages and are extremely vulnerable to price rises. If prices continue to outpace wages, income inequality will rise. Egyptians who can afford private or foreign education and have connections to get jobs with good wages continue to do well while the impact of growth and globalization will result in a higher cost of living for most of the rest of the population.  
SCOBAY